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Chapter 6

Entrepreneurship

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Learning Objectives

LO 1 Describe why people become entrepreneurs and what it takes, personally.

LO 2 Summarize how to assess opportunities to start new businesses.

LO 3 Identify common causes of success and failure.

LO 4 Discuss common management challenges.

LO 5 Explain how to increase your chances of success, including good business planning.

LO 6 Describe how managers of large companies can foster entrepreneurship.

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Introduction

Entrepreneurship is the process by which enterprising individuals initiate, manage, and assume the risks and rewards associated with a business venture.

- Independent **entrepreneurs** are individuals who establish a new organization without corporate sponsorship.
- **Intrapreneurs** are new venture creators working inside big companies.

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Entrepreneurship 1

What Makes Entrepreneurs Different?

Entrepreneurs are managers who engage in activities that not all managers do.

- Use network of contacts.
- Rent/use assets on temporary basis.
- Quicker to act and actively manage risk.
- **Entrepreneurial venture.**

Managers operate in a formal management hierarchy with well-defined authority and responsibility.

- Use internal hierarchy.
- Own assets.
- Slower to act and avoid risk.
- **Small business.**

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Entrepreneurship 2

What Does It Take to Be an Entrepreneur?

- Seeing opportunity where others see problems.
- Seeking independence and feeling part of the action.
- Successful entrepreneurs are innovators who also have good knowledge and skills in management, business, and networking.

Hamdi Ulukaya started Chobani yogurt because he missed the style of yogurt he had grown up with.

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Entrepreneurship 3

Myths About Entrepreneurship

Being an entrepreneur is great because you can get rich quick and enjoy a lot of leisure time while your employees run the company.

The reality is much more difficult.

- Can be stressful and exhausting.
- Expect communication breakdowns and other “people problems.”

“You are not your business.”

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Exhibit 6.1 Myths and realities about entrepreneurship

Myths	Realities
1. “Anyone can start a business.”	Starting is easy. The hard part is building and sustaining a successful venture.
2. “Entrepreneurs are gamblers.”	They take careful, calculated risks and are not afraid to act on those decisions.
3. “Entrepreneurs want the whole show to themselves.”	Higher-potential entrepreneurs build a team, an organization, and a company.
4. “Entrepreneurs are their own bosses and independent.”	They have to answer to many stakeholders, including partners, investors, customers, suppliers, creditors, employees, and families.
5. “Entrepreneurs work harder than managers in big firms.”	There is no evidence to support this claim. Some work more, some less.
6. “Entrepreneurs experience a great deal of stress.”	Entrepreneurs experience stress, but they also have high job satisfaction. They tend to be healthier and less likely to retire than those who work for others.
7. “Entrepreneurs are motivated solely by the quest for the dollar.”	More are driven by building high-potential ventures and realizing long-term capital gains than instant gratification from high salaries. Feeling in control of their own destinies and realizing their visions and dreams are powerful motivators.
8. “Entrepreneurs seek power and control over others.”	Many are driven by responsibility, achievement, and results. Successful entrepreneurs may become powerful and influential, but these are by-products.
9. “If an entrepreneur is talented, then success will happen quickly.”	Actually, many new businesses take three to four years to solidify. A saying from venture capitalists sums it up: “The lemons ripen in two and a half years, but the pearls take seven or eight.”
10. “Any entrepreneur with a good idea can raise venture capital.”	In practice, only 1 to 3 (out of 100) ventures are funded. And the challenge of raising capital becomes even more daunting when factoring in race and gender.
11. “If an entrepreneur has enough start-up capital, they can’t miss.”	Too much money at the beginning often leads to impulsive or undisciplined spending that usually results in serious problems or failure.
12. “Unless you attained a high score on your SATs or GMATs, you’ll never be a successful entrepreneur.”	Entrepreneurial IQ is actually a unique combination of creativity, motivation, integrity, leadership, team building, analytical ability, and ability to deal with ambiguity and adversity.

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Source: Adapted from J. A. Timmons and S. Spinelli, New Venture Creation, 6th ed. (New York: McGraw Hill/Irwin, 2004), pp. 67–68.

What Business Should You Start?

Entrepreneurs need a good idea, and to find or create the right opportunity.

What prompted the idea for Instacart?

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The Idea

A great product, a viable market, and good timing are essential ingredients in any recipe for success.

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The Opportunity

Sources of Opportunities

- Technological discoveries.
- Demographic changes.
- Lifestyle and taste changes.
- Economic dislocations.
- Calamities.
- Government initiatives and rule changes.

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Franchises

Franchising

An entrepreneurial alliance between two parties.

Proven (but not failure-proof) business concept.

Franchisees can take advantage of franchisor's expertise.

Also consider:

- Market presence, market share and profit margins.
- National marketing and purchasing programs.
- Nature of the business, and terms of the license agreement.
- Capital required, fees and royalties.

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Internet Fee Models

Successful E-Commerce Business Models

- **Transaction fee model.**
- **Advertising support model.**
- **Intermediary model.**
- **Affiliate model.**
- **Subscription model.**

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Next Frontiers

Entrepreneurial Opportunities

- Businesses that help clients collect, store, manage, and analyze data.
- Education.
- Virtual reality.
- Cryptocurrency.
- Green energy.
- Robots powered by artificial intelligence.
- Space travel.
- Earth-observation satellites.
- Health care sector.

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Social Entrepreneurship

Social Entrepreneurship

Leveraging resources to address social problems.

Social enterprise: organization that applies business models and leverages resources in ways that address social problems.

Advances societal well-being in one or more domains:

- Environment.
- Social and economic inclusion.
- Health and well-being.
- Civic engagement.

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What Does It Take To Succeed? 1

Entrepreneurial Personality

1. Commitment and determination.
2. Leadership.
3. Opportunity obsession.
4. Tolerance of risk, ambiguity, and uncertainty.
5. Creativity, self-reliance, and the ability to adapt.
6. Motivation to excel.

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What Does It Take To Succeed? 2

Making Good Choices

- Consider innovation versus risk.
- Successful companies do not always require a cutting-edge technology or an exciting new product.

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Exhibit 6.2 Entrepreneurial Strategy Matrix

Blank	Low Risk	High Risk
High Innovation	Chipotle expands its digital service to increase access and convenience for customers.	Medical researchers try to use 3D printing technology to create organs.
Low Innovation	A college student launches a résumé writing and interviewing tips venture.	An entrepreneur opens a pub in a downtown nightclub area.

Source: Adapted from M. Sonfield and R. Lussier, "The Entrepreneurial Strategy Matrix: A Model for New and Ongoing Ventures," *Business Horizons*, May–June 1997.

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What Does It Take To Succeed? 3

Failure Happens, but You Can Improve the Odds of Success

- Anticipate risk.

The Role of the Economic Environment

- Entrepreneurial activity stems from the economic environment.

Business Incubators

- Protected environments for new small businesses.

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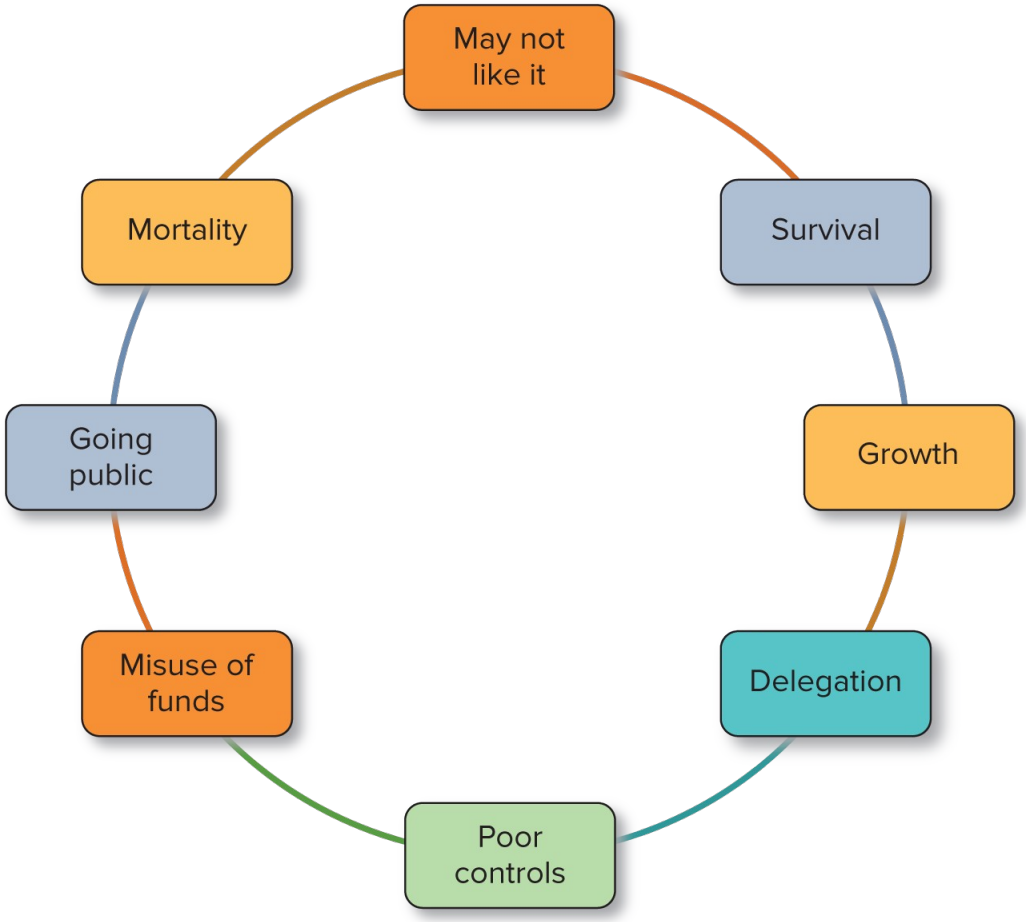
Exhibit 6.3 Eight Common Management Challenges for Entrepreneurs



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Common Management Challenges 1

Survival Is Difficult

Bureau of Labor Statistics says 20 percent of new businesses fail the first year.

- Only half survive five years.

Growth Creates New Challenges

- Must strike the right balance between growth and sustainability.
- Also challenging is the continuing growth and change in customer needs and expectations.

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Common Management Challenges 2

It's Hard to Delegate

- Entrepreneurs often hesitate to delegate work.
- Can deteriorate into micromanagement.

Poor Controls

- Entrepreneurs often fail to use formal control systems, such as record keeping.
- Economic slowdowns can sometimes provide an alarm.
- Need vigilance.

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Common Management Challenges 3

Going Public

- **Initial public offerings (IPOs)** offer a way to raise capital through federally registered and underwritten sales of shares in the company.

- Helps raise more capital, reduce debt, improve the balance sheet and enhance net worth, pursue unaffordable opportunities, and improve credibility.

- Disadvantages include the expense, time, and effort involved—and a tendency to focus too much on the stock price or capital gains.

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Planning and Resources Help You Succeed 1

Planning

Opportunity analysis.

- A description of the goods or services, an assessment of the opportunity, an assessment of the entrepreneur, specification of activities and resources needed to translate your idea into a viable business, and your source(s) of capita.

Business plan.

- A formal planning step that focuses on the entire venture and describes all the elements involved in starting it.

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Exhibit 6.4 Outline of a Business Plan

I. Executive Summary.

II. The Industry and the Company and Its Product(s) or Service(s).

III. Market Research and Analysis.

IV. The Economics of the Business.

V. Marketing Plan.

VI. Design and Development Plans.

VII. Manufacturing and Operations Plan.

VIII. Overall Schedule.

IX. Critical Risks, Problems, and Assumptions.

X. The Financial Plan.

XI. Proposed Company Offering.

XII. Appendixes.

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Source: J. A. Timmons, *New Venture Creation*, 5th ed. (McGraw Hill Education, 1999), p. 374.

Planning and Resources Help You Succeed 2

Key Planning Elements

1. The people.
2. The opportunity.
3. The competition.
4. The context.
5. Risk and reward.

Selling the Plan

- Your goal is to get investors to support the plan.
- Elements and timing are essential.
- Plan should help determine how to reduce risk and maximize reward.

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Planning and Resources Help You Succeed 3

Nonfinancial Resources

Legitimacy.

Networks.

- **Social capital:** being part of a social network and having a good reputation.

Top management teams.

Advisory boards.

Partners.

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Corporate Entrepreneurship

Corporate Entrepreneurship

- Even established companies try to find and pursue profitable new ideas—and they need in-house entrepreneurs (sometimes called intrapreneurs) to do so.

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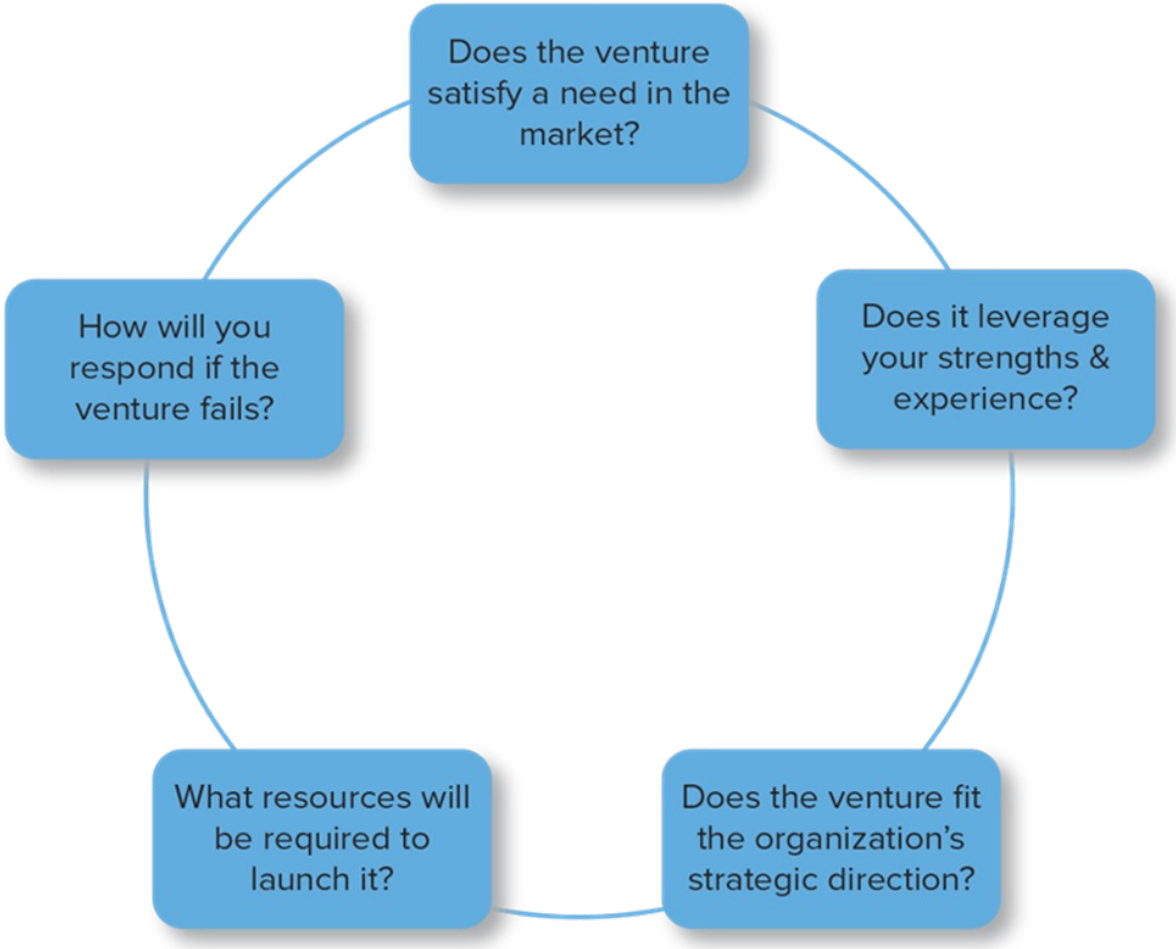
Exhibit 6.5 Questions to Ask Before Launching an Internal Business Venture


Does the venture satisfy a need in the market?
Does it leverage your strengths & experience?
Does the venture fit the organization's strategic direction?
What resources will be required to launch it?
How will you respond if the venture fails?

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Source: Adapted from G. Pinchot III, *Intrapreneuring*.

Build Support for Your Idea

Building Support

- Clear the investment with your immediate boss.
- Make cheerleaders who will support your idea.
- Employ horse trading for support, time, money, resources.
- Get the blessing of relevant higher-level officials.

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Build Intrapreneurship in Your Organization

Skunkworks

- A project team designated to produce a new, innovative product.
- Risk takers are not punished if they fail.

Bootlegging

- Informal work on projects, other than those officially assigned, of employees' own choosing and initiative.
- Some companies tolerate and encourage it.

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Managing the Risks

Intrapreneurship Risks

- Failing to foster intrapreneurship.
- Overreliance on a single project.
- Spreading intrapreneurial efforts over too many projects.

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An Entrepreneurial Orientation Encourages New Ideas

Entrepreneurial Orientation

- Tendency to engage in activities designed to identify and capitalize successfully on opportunities to launch new ventures.

- Independent action.
- Innovativeness.
- Risk taking.
- Proactiveness.
- Competitive aggressiveness.

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Group Challenge

Entrepreneurial Strategy Matrix

Identify 2 to 3 small businesses from the community that fit each of the following types (these reflect cells in Exhibit 6.2 in the text):

- High innovation, high risk.
- High innovation, low risk.
- Low innovation, high risk.
- Low innovation, low risk.

Why did you classify these organizations as you did?

How might the “high risk” organizations reduce their risk?

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Chapter Review 1

Why do people become entrepreneurs?

Idea, opportunity, franchises, the Internet, next frontiers, side streets.

- Social entrepreneurship.

What does it take?

- Commitment, leadership, obsession, risk tolerance, creativity, motivation.

Management challenges:

- Survival, growth, delegation, poor controls, going public.

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Chapter Review 2

Planning.

- Business plan.
- Nonfinancial resources.

Corporate entrepreneurship.

- Entrepreneurial orientation.

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End of Main Content

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